

A Literature Review of Fee For Services in the Workforce Development System

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This memorandum summarizes findings from a literature review on Fee for Services in the Workforce Development System. It is based on library and internet site sources examined during June and July of 1997. The findings and conclusions are summarized briefly, followed by a bibliography of references.

Findings and Conclusions

1. The fee for service project currently being carried out by the Regional Employment Board of Hampden County under a system building grant for the U.S. Department of Labor has produced the largest output of research and writing on this subject within the Workforce Development System. The WEB site maintained by the project is the best one available.

2. The concept of fee for services in the workforce development system originated with the National Performance Review. Vice President Albert Gore states in the National Performance Review,

*“Our nation's economic future depends on the quality of our workforce...No where on the government reinvention front is action more urgently needed or are potential rewards greater...We envision a new workforce development system, focused on the needs of workers and employers...career centers and training providers will have to compete for their customers' business, based on the quality of their services...Some centers might offer other services, from comprehensive testing to career counseling and workshops, on a fee-for-service basis.”.....The centers would also be allowed to generate their own revenues, including fees collected from employers and employees would could afford to pay.*¹

3. The use of the concept of fee for service is not widespread in the literature of workforce development.

Within the broader government arena, the term "fee for service" is applied within the health care business as "paying doctors (or hospitals) for services rendered." The payee may be the individual receiving the service or a third party, such as an insurance company or government health care program.

Outside of health care, the next most common application, within the human services field, is in child care services. Fee for service clients are generally understood to be those that are not

¹ Gore, Albert. “Putting Customers First,” in National Performance Review, September 7, 1994. (<http://www.npr.gov/library/nprpt/annrpt/redtpe93/211e.html>)

eligible for subsidized assistance from government agencies. Many child care centers include children from fee for service and subsidized sources.

4. The primary motivation for charging fees for services is declining federal support for organizations that serve the disadvantaged.

Lester Salamon, a widely respected student of non-profit organizations, argues that the nonprofit sector has increased fees and begun charging fees for heretofore free services because the federal government has sharply cut funding for their clients.²

5. The number of non-profit organizations that charge fees for service is probably rising, but precise estimates are not available.

In, "The Two Nonprofit Sectors: Fee for Service Versus Donative Organization," Henry Hansmann writes of the emergence of two types of non-profits; "philanthropic nonprofit sector", organizations supported by donations, and "commercial" non-profits, who receive virtually all of their income from the sale of services.³ The overall trend is the growing field of commercial non-profits, paralleled with the shrinking role of public sector support for charitable organizations and their causes.

6. The more successful non-profits become at charging fees, the more that private firms will attempt to constrain their growth.

Fee for service activities that remain relatively minor are not likely to engender complaint from for profit firms. However, Burton Weisbrod argues that small business consider non-profits "unfair competition" because of their special tax treatment and will exert pressure on the political community to constrain their growth if they begin to choke off business opportunities.⁴

7. Determining Fee Structures is a common problem for any non-profit entering into the fee for service business.

Determining a fee structure can be difficult as agencies must overcome the notion of a "public sector mission" verses the need to generate new funds.

² Lester M. Salamon, *Beyond Privatization: The Tools of Government Action: The Urban Institute Press, Washington, D.C. 1989*

³ Henry Hansmann, "The Two Nonprofit Sectors; Fee for Service versus Donative Organizations, in, *The Future of the Nonprofit Sector: Jossey-Bass Publishers: San Francisco, 1989.*

⁴ Burton Weisbrod, "The complexities of Income Generation for Non-profits," in *The Culture of the Nonprofit Sector: Jossey-Bass Publishers: San Francisco, 1989.*

For example, some organization's charging fees (e.g. child care), encounter problems in setting a sliding fee scale, because it leads to long waiting lists and difficult choices in determining appropriate income levels for specific fees.⁵

Alternative strategies for implementing fee policies include voluntary, fixed, and graduated fees. Peter Oliphant explains in, "Income Eligibility Standards and Fees For Social Services," that voluntary fees are more likely to protect access to services for low-income persons because no one has to pay a fee.⁶ They are also the least likely to protect services from budget cuts because an agency cannot predict the income.

Fixed fees are more likely to protect services from budget cuts since revenue is somewhat certain, yet less likely to guard access to services for low-income persons because a fee must be paid. Graduated fees are more likely to safeguard access to services by low-income persons, since those of the lowest income would pay no fee or the lowest fee.

Additionally, public social service agencies risk resistance to the adding or changes of fee-based services. Implementation of fees can be blocked because of complaints that any fees are too high, fees cost too much to administer, and fee schedules are nearly impossible to execute fairly.

8. Charging Fees for Services Raises Many Legal and Tax Issues for Non-profits.

There are several legal issues raised by the development of fee-based programs. Not-for-profit organizations may need to revise their charters to ensure that the fee-based programs are permitted. As more non-profits perform services formerly done by for profits, the Internal Revenue Service is beginning to question the tax exempt status of some organizations.

In addition, agencies must be aware of liability issues, which concern whether an organization is liable for the quality of the service for which they are charging fees.⁷

9. State Agencies Often Charge Other Agencies for Services Rendered

User fees have also become a popular new tactic for generating revenues in a number of states and localities.⁸ In twenty seven states, administrative services are provided by states' Departments of Administration (service bureaus for other state agencies), according to a survey of

⁵ Swenson-Klatt, Deborah. "The High Cost of Waiting for Child Care Sliding Fee Assistance: A Study of Families on the Child Care Sliding Fee Waiting List in Hennepin County, Minnesota."

⁶ Peter S. Oliphant, "Income Eligibility Standards and Fees for Social Services, September 8, 1987. Unpublished paper.

⁷ Salamon, L.

⁸ Hayes, Cheryl. "Financing Services for Young Children and their Families: Meeting the Challenges of Welfare Reform," The Finance Project, March 1997.

(address: <http://www.npr.gov/library/nprpt/annrpt/redtpe93/211e.html>)

these states by the Texas Performance Review. These agencies develop expertise in specialized areas, which are then made available to other state agencies. This is more cost-effective than having every agency hire their own experts.

One way to build competition into states' services is to require that the Departments of Administration reclaim the costs of its services by charging state agencies fees. Minnesota's Department of Administration has cut funding from the state's general fund to under twenty percent of its total operating budget by charging fees. Agencies are able to search for the best deal and only use the service bureau when they are competitive. Shifting from general revenue funding to a fee-for-service program forces the bureaus to become competitive and encourages state agencies to be more selective in the services they obtain.⁹

10. Evidence about the Impact of Charging Fees for Services is limited.

Despite the growth in fees for service, there are no comprehensive evaluations of the effects of these strategies on the quality of services or their customers.

⁹ *Office of Texas Comptroller of Public Accounts. "Expand the General Services Commission's Mission to Provide a Full Range of Central Administrative Service."*

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